IMBABAZANE

LOCAL MUNICIPALITY
UMKHANDLU WENDAWO

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

General Information

Executive Committee

Mayor	P G Strydom
Deputy Mayor	M C Mkhize
Speaker	M A Mkhize
Executive Committee Member	V P Gumbi
Executive Committee Member	L M Mlaba
Executive Committee Member	T Y Nqubuka
Councillors	T P Dubazane S W Khumalo Y N Mazibuko M D Mazibuko AB Mthonti G Mbhele T E Mchunu V C Mlangeni W G Mlotshwa M N Mthembu A S Ndlovu E S Ndumo S J Nhlabathi P T Shelembe X R Sithole M R Zulu L D Mnculwane T M Mvelase M B Mabaso
Grading of local authority	2 Low Capacity
Chief Financial Officer	Mr. S P Radebe
Acting Chief Financial Officer	Mr. SMI Dube (1 Oct 2015 to 30 June 2016)
Acting Accounting Officer	Mr. S P Radebe (1 Oct 2015 to 30 June 2016) Ms. ZM Ndlela (1 July 2015 to 30 September 2015)
Registered Office	Ntabamhlope Sobabili Area Escourt 3310
Postal Address	P. O. Box 750 Escourt 3310
Telephone number	036 353 0625/81/91/93
Fax number	036 353 6661
Auditors	Auditor General of South Africa
Bankers	ABSA
Attorneys	Shepstone & Wylie

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Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Pratice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgement and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these resposibilities, the Accounting Officer sets standards for internal control aimed at reducing risk of error or deficit in cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an accepatable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The municipality is partly dependant on the community and the state for continued funding operations.
The annual financial statements are prepared on the basis that the municipality is a going concern for the Financial year ended 30 June 2016, whislt bearing in mind that Imbabazane and uMtshezi will be merged in the up coming elections scheduled for 3 August 2016 to form the newly amalgumated Municipality.

I certify that salaries, allowances and benefits of Councillors as disclosed in notes 18 and 19 of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 1 to 45, which have been prepared on the going concern basis, and were approved by the accounting officer on the 31 August 2016.

Mr. SP Radebe
Acting Accounting Officer

Imbabazane Municipality
Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position

Figures in Rand	Note(s)	2016	2015
Assets			
Current assets			
Other receivables from exchange transactions	2	5 750 788	14 959 869
Vat receivable	3	5 358 464	2 400 915
Receivables from non-exchange transactions	4	21 013 544	13 604 860
Cash and cash equivalents	5	9 329 788	23 218 004
		41 452 584	**54 183 648**
Non-current assets			
Investment property	6	1 597 835	1 668 067
Property, plant and equipment	7	126 823 812	113 323 840
Intangible assets	8	120 734	328 501
		128 542 380	**115 320 409**
Total Assets		**169 994 964**	**169 504 056**
Liabilities			
Current liabilities			
Payables from exchange transactions	9	5 763 751	16 235 977
Payables from non - exchange transactions	9.1	5 500	35 812
Provisions	11	2 183 703	3 075 034
Current portion of non-current provision - LSA	12	160 431	46 418
		8 113 385	**19 393 240**
Non-current liabilities			
Non-current provision -LSA	12	1 004 401	889 385
		1 004 401	**889 385**
Total Liabilities		**9 117 786**	**20 282 625**
Net Assets		**160 877 178**	**149 221 431**
Equity / Community Wealth			
Accumulated Surplus		160 877 178	149 221 431
TOTAL COMMUNITY WEALTH/EQUITY		**160 877 178**	**149 221 431**

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
Revenue			
Revenue from Exchange transactions			
Licences and permits		439	744
Rental of facilities		12 882	64 123
Other income	13	345 901	957 187
Interest on investments	14	1 910 839	2 273 529
Total revenue from Exchange transactions		**2 270 061**	**3 295 582**
Revenue from Non - exchange transactions			
Property rates	15	12 154 697	7 710 558
Property Rates Penalties	15	1 526 903	918 557
Government grants and subsidies	16	118 248 101	101 107 102
Traffic fines		-	-
Total revenue from Non - exchange transactions		**131 929 700**	**109 736 217**
Total revenue		**134 199 761**	**113 031 799**
Expenditure			
Employee related costs	17	31 985 959	41 221 122
Remuneration of Councilors	18	7 235 206	6 818 100
Adjustments to non-current provisions		-	1 556
Depreciation and amortization	19	12 659 844	10 228 064
Finance costs	20	-	7 519
Interest Paid	21	314 448	58 052
Repairs and maintenance		11 018 188	8 571 597
General expenditure	22	57 520 636	44 274 481
Contribution to Bad debt provision		1 796 626	768 589
Loss on Disposal of Asset		-	33 439
Loss on Derecognition of Asset		13 108	734 683
Total expenditure		**122 544 015**	**112 717 201**
Surplus for the period		**11 655 746**	**314 598**

Statement of Changes in Net Assets

Figures in Rand	Note	Accumulated surplus	Total net assets
Balance at 1 July 2014		**146 575 652**	146 575 652
Surplus for the year		314 598	314 598
Opening Balance as previosuly reported 1 July 2015		**146 890 250**	**146 890 250**
Prior period Adjustment	33	2 331 181	2 331 181
Restated Balance as at 1 July 2015		**149 221 431**	**149 221 431**
Surplus for the year		11 655 746	11 655 746
Balance at 30 June 2016		**160 877 178**	**160 877 178**

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Property rates		4 746 013	2 829 558
Grants receipts		118 217 789	97 969 000
Interest income		1 910 839	2 273 529
Other cash receipts		1 886 125	1 940 610
		126 760 766	105 012 697
Payments			
Employee related costs		-39 221 165	-48 039 222
Supplier and other payments		-73 305 364	-55 402 688
Finance costs		0	-65 570
		-112 526 529	-103 507 480
Net cash flows from operating activities	24	**14 234 236**	**1 249 761**
Cash flows from investing activities			
Purchase of Property, plant and equipment		(28 088 822)	(24 800 916)
Proceeds from sale of Property, plant and equipment		-	115 000
Purchase of Intangible assets		(33 631)	(85 800)
Investments		-	-
Net cash flows from investing activities		**(28 122 453)**	**(24 771 716)**
Cash flows from financing activities			
Repayment of finance leases		-	(164 030)
Total cash flows from financing activities		**-**	**(164 030)**
Net increase/(decrease) in cash and cash equivalents		**(13 888 217)**	**(23 685 985)**
Cash and cash equivalents at the beginning of the year		23 218 004	46 903 990
Cash and cash equivalents at the end of the period		**9 329 788**	**23 218 004**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note	Percentage
Figures in Rand							
Statement of Financial Performance							
Revenue							
Revenue from exchange transactions							
Other revenue	937 000	(39 000)	**898 000**	1 886 125	**988 125**		-52%
Investment revenue	1 500 000	500 000	**2 000 000**	1 910 839	**(89 161)**		5%
Gains on disposal of assets	60 000	-	**60 000**	-	(60 000)		
Total revenue from exchange transactions	**2 497 000**	**461 000**	**2 958 000**	**3 796 964**	**838 964**		
Revenue from non-exchange transactions							
Property rates	12 064 000	-	**12 064 000**	12 154 697	**90 697**		-1%
Government grants and subsidies	109 347 000	(15 146 000)	**94 201 000**	94 731 101	**530 101**		-1%
Transfer revenue					**-**		
Fines	-	-	**-**	-	**-**		0%
Total revenue from non-exchange transactions	**121 411 000**	**(15 146 000)**	**106 265 000**	**106 885 798**	**620 798**		
Total revenue	**123 908 000**	**(14 685 000)**	**109 223 000**	**110 682 761**	**1 459 761**		
Expenditure							
Personnel	35 309 000	(3 799 000)	**31 510 000**	31 985 959	**(475 959)**		-1%
Remuneration of councillors	7 221 000	4 000	**7 225 000**	7 235 206	**(10 206)**		0%
Depreciation	9 230 000	809 000	**10 039 000**	12 659 844	**(2 620 844)**	31.1	-21%
Debt Impairment	750 000	53 000	**803 000**	1 796 626	**(993 626)**	31.2	-55%
Finance costs	120 000	270 000	**390 000**	-	**390 000**		
Repairs and maintenance	9 390 000	3 997 000	**13 387 000**	11 018 188	**2 368 812**		21%
Contracted services	4 300 000	410 000	**4 710 000**	6 576 968	**(1 866 968)**		-28%
Loss on Disposal of PPE	-	-	**-**	13 108	**(13 108)**	31.3	-100%
Transfers recognised - operating	-	-	**-**	-	**-**		0%
General expenses	59 146 000	(19 025 000)	**40 121 000**	48 199 510	**(8 078 510)**	31.4	-17%
Consultant fees	500 000	150 000	**650 000**	785 032	**(135 032)**		-17%
Audit fees	2 044 000	236 000	**2 280 000**	1 959 126	**320 874**		16%
Total expenditure	**128 010 000**	**(16 895 000)**	**111 115 000**	**122 229 567**	**(11 114 567)**		
Surplus/(Deficit)	**(4 102 000)**	**2 210 000**	**(1 892 000)**	**(11 546 806)**	**(9 654 806)**		
Transfers recognised - capital	23 517 000		**23 517 000**	23 517 000	**-**		
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**19 415 000**	**2 210 000**	**21 625 000**	**11 970 194**	**(9 654 806)**		

Reasons for all variances in excess of 10% of the acutal amount has been disclosed in Note 34

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, unless otherwise stated.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Revenue Recognition

Accounting Policy 1.15 & 1.16 on Revenue from Exchange Transactions and Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgement by management.

Impairment of Financial Assets

Accounting Policy 1.7 Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies 1.4 and 1.5, the municipality depreciates/amortises its property, plant and equipment,and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Impairment: Write down of Property, Plant and Equipment, Intangible assets and Inventories

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

1.2 Significant judgements and sources of estimation uncertainty (Cont.)

Defined Benefit Plan Liabilities

As described in Accounting Policy 1.13 Employee Benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligation of the municipality that was identified is Longservice Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25 Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 12 to the financial statements

Going concern assumption

The financial statements have been prepared on a going concern basis, refer to Note 35

Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP

Provisions

Provisions have been raised by the municipality. Additional disclosure of these estimates of provisions are included in note Note 12 - Provisions.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of

Costs include, costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Subsequent measurement

Cost model

Investment property is carried at cost less accumulated depreciation and any impairement losses.

Depreciation is provided to write down the costs less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - Buildings	30 years

Impairments

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

An Investment Property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property. All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Accounting Policies

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent Measurements

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated,using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets.The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality.Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.Depreciation only commences when the asset is available for use, unless stated otherwise.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Useful life**
Infrastructure	
Roads - Gravel	10 years
Community	
Outdoor sport facilities	20 years
Community halls	30 years
Public Convienence	30 years
Other Property Plant & Equipment	
Funiture & Fixtures	3 - 10 years
Motor Vehicles	5 years
Office Equipment	5 years
IT Equipment	3 years
Emergency equipment	5 - 15 years
Other assets	2 - 30 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Property, plant and equipment (Cont.)

Capital Work in Progress

Capital work in progress is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

Derecognition of Property, Plant and Equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognised. Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

An intangible asset shall be measured initially as cost. Where an intangible asset is acquired through a non-exchnage transaction, its initial cost at the date of acquisition shall be measured at its fair value as at that date. The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset shall be de-recognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognistion of an intangible asset shall be determined as the difference between the net disposal proceeds, if any and the carrying amount of the asset. It shall be recognised in surplus or deficit when the asset is derecognised.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.5 Intangible assets (Cont.)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer Software	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds. if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Initial recognition

The entity classifies financial assets and financial liabilities into the following categories.
Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financialliability in accordance with the substance of the contractual arrangement.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

1.6 Financial instruments (continued)

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost insuring the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and defaultor, delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is wrrtten off against the operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payable from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequeny recorded at amortised cost.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:
For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deftcit when the financial asset or financial liability is derecognised or impaired, through an amortisation process

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is

- the rights to receive cash flows from the asset have expired
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset. the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss of loans and receivables carried at amortised cost has been incurred, the amount of the losses measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credlosses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognisation). The carrying amount of the assets shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.7 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.
Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

1.8 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non- cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.8 Impairment of cash-generating assets (Cont.)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between
Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.9 Impairment of non-cash-generating assets(Continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service

The present value of the remaining service potential of a non-cash-generating asset is determined using the following

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Employee benefits

GRAP 25 on employee benefits is to provide accounting principles for amounts or benefits due to employees, their spouses or third parties when employees have rendered services to the municipality, and the rendering of those services entitles employees to certain benefits.This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits which the municipality has been following in the prior year. Since IAS 19 has been applied in developing the current accounting policy, no significant impact on the financial statements of the Municipality is expected.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.10 Employee benefits (Continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Actuarial assumptions

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

1.11 Provisions and contingencies(Continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.
If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.
Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in Note 26

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement
Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services
When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date.

1.12 Revenue from exchange transactions (Cont.)
Interest, Service Fees
Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions
Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.
The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation. Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

Value Added Tax (VAT):

The municipality accounts for VAT on the receipts basis.

Fines

As per IGRAP1 assessing and recognising impairment is an event that takes place subsequent to initial recognition of revenue charged. A provision is raised accodingly when the entity assess the probability of revenue collection. The provision for traffic fines has been calculated based on the historical collection rate.

Gifts and donations, including goods in-kind

1.14 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.20 Related parties

A related party is person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party or vice versa or an entity that is subject to common control or joint control.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.21 Cash and Cash Equivalents
Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.22 Changes in accounting policies, estimates and errors

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening. The provisions of IGRAP 1 have been applied prospectively in line with IGRAP1

1.23 Events after the reporting date
Events after the reporting date that have been classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.24 Comparative Information
Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative. amounts are reclassified. The nature and reasons for the reclassification are disclosed, in note 30, Prior period error

1.25 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements

Accounting Policies

1.26 New standards and interpretations

Standards and Interpretations issued, but not yet effective

Standard/ Interpretation:	Effective date: Years beginning on or after	
GRAP 18: Segment Reporting	1 April 2016	Unlikely to be significant as the effect is on presentation only
GRAP 105: Transfers of functions between entities under common control	1 April 2014	Currently not applicable to the Municipality
GRAP 106: Transfers of functions between entities under common control	1 April 2014	Currently not applicable to the Municipality
GRAP 107: Mergers	1 April 2014	Currently not applicable to the Municipality
GRAP 20: Related Parties	1 April 2014	No significant impact is expected
GRAP 11: Consolidation - Special purposes entities	1 April 2014	Currently not applicable to the Municipality
IGRAP 12: Jointly controlled entities - Non-montary contributions by ventures	1 April 2014	Currently not applicable to the Municipality
GRAP 32: Service Concession Arrangements: Grantor	1 April 2015	Currently not applicable to the Municipality
GRAP 108: Statory Receivables	1 April 2015	Currently not applicable to the Municipality
IGRAP 17: Service Concession Arrangements	1 April 2015	Currently not applicable to the Municipality

1.26 New standards and interpretations (Cont.)

Standards and Interpretations effective and adopted in the current year

Standard/ Interpretation:	**Effective date:**	**Years beginning on or after**
GRAP 25: Employee benefits	1 April 2013	This standard prescribes similar requirements to those in terms of IAS 19; Employee Benefits. Since IAS 19 has been applied in developing the previous accounting policy and no major amedments were effected, no significant change is required to the current treatment
GRAP 1 (as revised 2012): Presentation of Financial Statements	1 April 2013	No material changes effected
GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	1 April 2013	No material changes effected
GRAP 7 (as revised 2012): Investments in Associates	1 April 2013	Currently not applicable to the Municipality
GRAP 9 (as revised 2012): Revenue from Exchange Transactions	1 April 2013	No material changes effected
GRAP 12 (as revised 2012): Inventories	1 April 2013	No material changes effected
GRAP 13 (as revised 2012): Leases	1 April 2013	No material changes effected
GRAP 16 (as revised 2012): Investment Property	1 April 2013	No material changes effected
GRAP 17 (as revised 2012): Property, Plant and Equipment	1 April 2013	No material changes effected
GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	1 April 2013	Currently not applicable to the Municipality

1.26 New standards and interpretations (Cont.)

Standards and Interpretations effective and adopted in the current year

Standard/ Interpretation:	**Effective date:**	**Years beginning on or after**
GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	1 April 2013	No material changes effected
IGRAP16: Intangible assets website costs	1 April 2013	No material changes effected
IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	1 April 2013	No material changes effected

Figures in Rand	2016	2015

2. Other receivables from exchange transactions

Other debtors	247 915	734 371
BTMN Engineers (Pty) Ltd	-	225 699
Prepaid Expenditure - Mayor's Vehicle	-	464 950
Department of Energy	5 698 175	13 511 860
Uthukela District Municipality	500 000	500 000
	6 446 090	**15 436 880**
Less Provision for doubtful debts	(695 302)	(477 011)
	5 750 788	**14 959 869**

The balance of R500,000, is the amount due from Uthukela District municipality. Historically, the municipality's equitable share used to be paid to the District who in turn paid over the amount due to the Imbabazane Municipality. The balance is an outstanding amount which the Uthukela District Municipality failed to pay over.

The Municipality applied to the Department of Energy for Grant funding for electrification projects in the 2015/16 for Rosedale, Emahendeni,Enhlanomkhize, Gaurton Bridge, Mdwebu and Italy projects. The Department approved that the Municipality utilise its own funding for the 2015/16 finacial year and the Department will re-imbursed the Municipality 2016/2017 fiancial year.

3. VAT receivable

VAT receivable	**5 358 464**	**2 437 982**

VAT is payable on the receipt basis. Amount claimable to SARS is disclosed in the VAT Control Account where VAT 201s and VAT refunds are offset and amounts due or payable to SARS is disclosed.

4. Consumer and other debtors from non-exchange transactions

Property rates	23 218 161	14 231 141
Less Provision for doubtful debts - Property rates	(2 204 617)	(626 281)
	21 013 544	**13 604 860**
Traffic fines	26 650	26 650
Less Provision for doubtful debts	(26 650)	(26 650)
	-	-
	21 013 544	**13 604 860**

Consumer debtors age analysis - Property rates

Current	-	-
31 - 60 days	704 034	903 214
61 - 90 days	711 084	410 926
91 - 120 days	1 328 879	406 890
121 days and older	20 474 163	12 510 111
	23 218 161	**14 231 141**

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 000	1 000
Bank balances	(1 842 869)	8 075 212
Short term investment	11 171 657	15 141 793
	9 329 788	**23 218 004**

The municipality had the following bank accounts:
Account number/description

	Bank Statement Balances		Cash Book Balances	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
ABSA Bank Limited Newcastle. Current account. - 4056119170	2 235 260	6 074 665	(5 546 928)	3 872 583
ABSA Bank Limited Newcastle. Current account - 4060975423	3 670 059	3 688 631	3 704 059	3 688 631
	5 905 319	**9 763 296**	**(1 842 869)**	**7 561 215**

Short-term Deposits:

Account number/description

ABSA Call Deposit - Account number 20-7513-5650	-	15 141 793
FNB - Call deposit - Account number - 62299691686	1 031 931	
Nedbank ltd -Call deposit - Account number 037165014640	10 139 726	-
	11 171 657	**15 141 793**

Figures in Rand

6. Investment property

	08-Jul-05			2015		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Investment property	2 627 348	(1 029 513)	1 597 835	2 610 098	(942 031)	1 668 067

Reconciliation of investment property - 2016

	Opening Balance	Additions	Depreciation	Closing Balance
Investment property	1 668 067	17 250	(87 482)	1 597 834

Reconciliation of investment property - 2015

	Opening Balance	Additions	Depreciation	Closing Balance
Investment property	1 556 965	197 556	(86 454)	1 668 067

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The most recent valuation of the investment property was performed by MillsFithet Independent Valuers. The fixed date of valuation and the date of compilation as per the valuation report are 2 July 2012 and 19 April 2013 respectively. The fair value as at the date 2 July 2012 was R 3 500 000.

7. Property, plant and equipment

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	16 612 748	(3 631 934)	12 980 815	16 005 363	(3 081 627)	12 923 737
Plant and machinery	6 056 219	(3 728 607)	2 327 612	6 056 219	(3 158 111)	2 898 108
Furniture and fittings	2 490 600	(1 689 586)	801 014	2 384 100	(1 439 287)	944 813
Motor vehicles	3 630 460	(2 006 155)	1 624 304	3 650 280	(1 601 542)	2 048 738
Office equipment	3 624 054	(2 457 643)	1 166 412	3 294 730	(2 079 220)	1 215 510
Infrastructure	93 612 387	(32 948 046)	60 664 341	75 776 203	(24 267 204)	51 509 000
Community	46 494 571	(4 907 035)	41 587 536	31 763 701	(3 661 013)	28 102 688
Capital work in progress	5 532 513	-	5 532 513	13 409 427	-	13 409 427
Security assets	127 761	(64 217)	63 543	127 761	(50 133)	77 628
Finance lease assets - Office machines	1 005 812	(930 089)	75 723	1 005 812	(811 619)	194 192
	179 187 123	**(52 363 311)**	**126 823 812**	**153 473 595**	**(40 149 755)**	**113 323 840**

Figures in Rand

Reconciliation of property, plant and equipment - 2016

	Opening Balance	Additions	Transfers/ disposals	Depreciation	Impairment loss	Closing Balance
Buildings	12 923 737	607 483		(550 406)	-	12 980 815
Plant and machinery	2 898 286			(570 674)	-	2 327 612
Furniture and fittings	944 813	106 500		(250 299)	-	801 014
Motor vehicles	2 048 738	464 950	(367 363)	(522 021)	-	1 624 305
Office equipment	1 215 511	329 324		(378 423)	-	1 166 412
Infrastructure	51 509 000	17 836 184		(8 680 842)	-	60 664 341
Community	28 102 689	14 730 869		(1 246 022)	-	41 587 536
Capital work in progress	13 409 427	15 335 851	(23 212 766)		-	5 532 512
Security assets	77 628	-		(14 084)	-	63 544
Finance lease assets - Office machines	194 192	-		(118 469)	-	75 723
	113 324 020	**49 411 161**	**(23 580 128)**	**(12 331 240)**	**-**	**126 823 813**

Reconciliation of property, plant and equipment - 2015

	Opening Balance	Additions	Transfers	Depreciation	Impairment loss	Closing Balance
Buildings	6 835 240	6 618 219		(529 722)	-	12 923 737
Plant and machinery	3 308 597	198 300		(608 611)	-	2 898 286
Furniture and fittings	575 452	654 549		(285 189)	-	944 813
Motor vehicles	1 555 421	1 832 954	(734 683)	(604 955)	-	2 048 738
Office equipment	1 315 417	311 024		(410 930)	-	1 215 511
Infrastructure	40 815 830	17 037 435		(6 344 265)	-	51 509 000
Community	21 623 451	7 422 528		(943 289)	-	28 102 689
Capital work in progress	21 582 423	19 404 958	(27 577 955)		-	13 409 427
Security assets	95 862	-		(18 234)	-	77 628
Finance lease assets - Office machines	328 491	-		(134 300)	-	194 192
	98 036 184	**53 479 967**	**(28 312 638)**	**(9 879 493)**	**-**	**113 324 020**

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

8. Intangible assets

	2016			2015		
	Cost	**Accumulated amortisation**	**Carrying value**	**Cost**	**Accumulated amortisation**	**Carrying value**
Computer software	948 231	(827 497)	120 734	914 600	(586 098)	328 501

Reconciliation of intangible assets - 2016

	Opening Balance	Additions	Amortisation	Closing Balance
Computer software	328 501	33 631	(241 399)	120 733

Reconciliation of intangible assets - 2015

	Opening Balance	Additions	Amortisation	Closing Balance
Computer software	506 661	85 800	(263 960)	328 501

A register as required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Figures in Rand	2016	2015
9. Payables from exchange transactions		
Trade payables	619 387	13 389 070
Retentions	2 019 435	332 221
Leave pay accrual	3 089 516	2 511 416
Unallocated Deposits	**35 414**	**3 271**
	5 763 751	16 235 977

Trade and other payables

Trade and other payables are normally settled on 30 day terms.

Leave pay accrual

The leave pay accrual is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee. Leave pay accrual represents the number of leave days due to individual staff members at the end of the reporting period. The amount of the accrual is the best required estimate expected to settle the present obligation at the reporting date.

9.1 Payables from non - exchange transactions

Finance management grant (FMG)	-	-
EPWP grant	-	
CSC Operational Support	5 500	
Library grant	-	
Municipal infrastructure grant (MIG)	-	-
Municipal systems improvement grant (MSIG)	-	35 812
	5 500	35 812

Figures in Rand	2016	2015

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Finance management grant (FMG)	-	-
EPWP grant	-	-
IDP grant - Cogta	-	-
Library grant	-	-
EPWP grant	-	
CSC Operational Support	-	
Municipal infrastructure grant (MIG)	-	-
Municipal systems improvement grant (MSIG)	-	-
Library grant	-	-
Unspent grant transfer to Payables		
	-	**-**

Movement during the year

Balance unspent at the beginning of the year	35 812	-
Current year receipts	29 033 000	27 332 000
Conditions met transferred to revenue	(29 027 500)	(27 296 188)
Unspent portion set off against equitable share	(35 812)	-
Unspent grant transfer to Payables from non-exchange transactions - Refer note 9.1	(5 500)	(35 812)
	-	**-**

Financial management grant (FMG)

Unspent at beginning of the year	-	-
Current year receipts	1 800 000	1 800 000
Conditions met transferred to revenue	(1 800 000)	(1 800 000)
Unspent grant transfer to Payables from non-exchange transactions - Refer note 9.1	-	-
Unspent at the end of the reporting period	**-**	**-**

EPWP grant

Unspent at beginning of the year	-	-
Current year receipts	1 409 000	1 000 000
Conditions met transferred to revenue	(1 409 000)	(1 000 000)
Unspent at the end of the reporting period	**-**	**-**

MIG grant

Unspent at beginning of the year	-	-
Current year receipts	23 517 000	22 787 000
Conditions met transferred to revenue	(23 517 000)	(22 787 000)
Unspent portion set off against equitable share		
Unspent grant transfer to Payables from non-exchange transactions - Refer note 9.1		
Unspent at the end of the reporting period	**-**	**-**

Municipal systems improvement grant (MSIG)

Unspent at beginning of the year	35 812	-
Current year receipts	930 000	934 000
Conditions met transferred to revenue	(930 000)	(898 188)
Unspent portion set off against equitable share	(35 812)	
Unspent grant transfer to Payables from non-exchange transactions - Refer note 9.1	-	
Unspent at the end of the reporting period	**-**	**35 812**

CSC Operational Support

Unspent at beginning of the year	-	-
Current year receipts	500 000	-
Conditions met transferred to revenue	(494 500)	-
Unspent grant transfer to Payables from non-exchange transactions - Refer note 9.1	(5 500)	
Unspent at the end of the reporting period	**-**	**-**

Cyber Cadet Grant

Unspent at beginning of the year	-	-
Current year receipts	170 000	-
Conditions met transferred to revenue	(170 000)	-
Unspent at the end of the reporting period	**-**	**-**

Library grant

Unspent at beginning of the year	-	-
Current year receipts	707 000	811 000
Conditions met transferred to revenue	(707 000)	(811 000)
Unspent at the end of the reporting period	**-**	**-**

Figures in Rand	2016	2015

Finance management grant (FMG)
The main objective of this grant is to roll out financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist in building strong financial management skills.

EPWP grant
This grant is one element within a broader government strategy to reduce poverty through the alleviation and reduction of unemployment

Municipal infrastructure grant (MIG)
This grant is used for infrastructure development

Municipal systems improvement grant (MSIG)
This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

CSC Operational Support Grant
The purpose of this grant is to support the operations of the Thusong Centre

Cyber Cadet Grant
The objective of the grant is to maintain and operate the cyber cadet facility at the library for the benefit of the community.

Library grant
The objective of the grant is to maintain and operate the local library for the benefit of the community.

11. Provisions

Reconciliation of Bonus provision

- Opening balance	3 075 034	870 166
- Expenditure	(1 656 292)	(1 064 770)
- Contributions	764 961	3 269 637
- Closing balance	**2 183 703**	**3 075 034**

Bonus provision
Bonuses are paid as a 13th cheque to employees that qualify. Provision for bonus is calculated based on the qualifying employees latest basic salary.

Figures in Rand	2016	2015

12. Long Services Awards Provision

Provision for Long-term Service		
Total Provision	**1 164 832**	**935 803**

The movement in the provision are reconciled as follows:		
Long-term Service		
Balance at beginning of year	935 803	744 247
Contribution to provision	229 029	191 556
Balance at end of year	**1 164 832**	**935 803**
Less Current Portion	(160 431)	(46 418)
Non-current Portion	**1 004 401**	**889 385**

Long-service Awards
The municipality operate an unfunded defined benefit plan for all its employees. Long-service Award is payable after 10 years thereafter to employees.
The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2015 by Arch Actuarial Consulting

The principal assumptions used for the purposes of the were as follows:	2016	2015
Discount rate	8,67%	8,27%
General Salary Cost inflation rate	7,32%	7,24%
Nett Effective Discount Rate	1,26%	0,96%
Expected Retirement Age - Females	61	61
Expected retirement Age - Males	61	61

Long Services Awards Provision

The following information regarding Long Service provis	2016	2015
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	935 803	744 247
Current service cost	122 544	96 547
Interest cost	75 524	58 625
Benefits paid	(46 418)	(55 241)
Actuarial losses/(gains)	77 379	91 625
Fund obligation at the end of the year	1 164 832	935 803

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:
(1) The discount rate relative to the salary inflation assumptions;
(2) The average retirement age of employees; and
(3) Assumed rates of withdrawal of employees from service.
(4) The general salary inflation rate assumption

Figures in Rand	2016	2015

SENSITIVITY RESULTS

The liability at the Valuation Date was recalculated to show the effect of:
(1) A 1% increase and decrease in the assumed general salary inflation rate;
(2) A two-year decrease and increase in the assumed average retirement age of employees; and
(3) A 50% decrease in the assumed withdrawal rates from service.
(4) A 1 % increase and decrease in the discount rate;

Sensitivity Analysis on the Unfunded accrued liability

Assumption	Change	Liability	% change
Central Assumptions		1,165	
General salary inflation	1,0%	1,252	8%
	-1,0%	1,086	-7%
Discount rate	1%	1,083	-7%
	-1%	1,258	8%
Average retirement age	- 2 yr	1,078	-7%
	2 yrs	1,236	6%
Withdrawal rate	-50%	1,505	29%

Sensitivity Analysis on the Current-service and Interest Cost for the year ending 30 June 2015

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions		96 500	58 600	155 100	
General salary inflation	1,0%	106 500	63 500	170 000	10%
	-1,0%	87 700	54 300	142 000	-8%
Discount rate	1%	87 400	60 700	148 100	-5%
	-1%	107 100	56 100	163 200	5%
Average retirement age	- 2 yr	88 600	53 200	141 800	-9%
	2 yrs	102 900	61 500	164 400	6%
Withdrawal rate	-50%	142 600	79 100	221 700	43%

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30 June 2016

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions		122 500,0	75 500,0	198 000	
General salary inflation	1,0%	134 500,0	81 700,0	216 200	9%
	-1,0%	112 000,0	70 000,0	182 000	-8%
Discount rate	1%	112 700,0	78 100,0	190 800	-4%
	-1%	133 900,0	72 200,0	206 100	4%
Average retirement age	- 2 yr	114 000,0	69 500,0	183 500	-7%
	2 yrs	130 300,0	80 200,0	210 500	6%
Withdrawal rate	-50%	176 900,0	100 800,0	277 700	40%

13. Other income

	2016	2015
Sale of tender documents	50 044	51 974
LGSETA refund	33 907	41 546
Other revenue	261 950	30 641
Proceeds from insurance claims	-	833 025
	345 901	**957 187**

Figures in Rand	2016	2015

14. Interest on investments

Investec, Nedbank and FNB short term investment	719 591	902 681
ABSA current accounts	1 191 248	1 370 848
	1 910 839	**2 273 529**

15. Property rates

Rates assessed		
State	11 404 759	7 260 055
Small holdings and farms	725 538	306 984
Commercial	24 400	143 519
	12 154 697	**7 710 558**
Property Rates Penalties	**1 526 903**	**918 557**

Rates assessed comprises of:		
Assessment rates	19 963 590	19 306 372
Income foregone	(7 808 893)	(11 595 815)
Net assessment	**12 154 697**	**7 710 558**

Valuations

Commercial	57 850 000	57 850 000
State	856 338 000	856 338 000
Small holdings and farms	502 535 000	502 535 000
	1 416 723 000	**1 416 723 000**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Different rate randage is charged for each different category of ratepayers. No additional rebated were granted to any categories of ratepayers except for the compulsory phasing in of certain rates as contained in the Council's approved Property Rating Policy.

Rates are levied on a monthly basis in twelve (12) equal instalments payable on the 7th of the subsequent month. No interest and collection charges are levied on outstanding rates accounts, as agreed with the municipality as part of the phased-in process.

16. Government grants and subsidies

Operating grants		
Equitable share	84 506 812	73 810 914
Electrical Management Grant	4 713 839	
Cyber Cadet	170 000	
Thusong Centre Grant	494 450	
EPWP grant	1 409 000	1 000 000
Finance management grant (FMG)	1 800 000	1 800 000
Library grant	707 000	811 000
Municipal systems improvement grant (MSIG)	930 000	898 188
	94 731 101	**78 320 102**
Capital Grants		
Municipal Infrastructure grant (MIG)	23 517 000	22 787 000
Total Government grants and subsidies	**118 248 101**	**101 107 102**

Equitable share

The constitution provides that each sphere of government - national, provincial and local - is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it. The equitable division of revenue takes into account the functions assigned to each sphere and the capacity of each government to pay for these functions through own receipts and revenues. The equitable share is an unconditional allocation.
share is an unconditional allocation.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

17. Employee related costs

Basic remuneration	23 316 486	20 190 641
Bonus	764 961	3 269 637
Medical aid and pension fund contributions	2 542 384	2 308 054
Unemployment Insurance fund	157 161	174 540
Skills development levy	338 810	310 760
Travel, vehicle, accomodation and other allowances	3 318 806	2 333 795
Overtime	20 336	654 343
Housing allowances	84 252	62 514
Leave pay	1 442 764	1 666 287
Backpay	-	10 250 550
	31 985 959	**41 221 122**

Remuneration of the Municipal Manager

Annual Remuneration	348 661	662 207
Car Allowance	108 047	217 230
Contributions to UIF, Medical and Pension Funds	20 686	5 277
	477 395	884 714

Remuneration of the Chief Financial Officer

Annual Remuneration	590 548	780 940
Car Allowance	-	-
Contributions to UIF, Medical and Pension Funds	26 689	1 724
	617 237	782 664

Remuneration of the Community Services Manager

Annual Remuneration	572 394	545 099
Car Allowance	153 778	153 778
Contributions to UIF, Medical and Pension Funds	46 570	1 785
	772 742	700 661

Remuneration of the Corporate and Human Resources Manager

Annual Remuneration	303 720	426 291
Car Allowance	78 852	139 908
Contributions to UIF, Medical and Pension Funds	22 032	1 487
	404 604	567 686

Remuneration of the Technical Services Manager

Annual Remuneration	632 693	717 086
Car Allowance	-	-
Contributions to UIF, Medical and Pension Funds	2 056	1 636
	634 749	718 722

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
18. Remuneration of Councillors		
Mayoral allowance	734 233	694 884
Deputy mayor allowance	444 210	560 331
EXCO members allowance	1 037 546	936 409
Ordinary Councillor allowance	4 680 973	4 300 306
Speaker allowance	338 244	326 170
	7 235 206	**6 818 100**

In-kind benefits

The Mayor and Deputy Mayor are employed on a full-time basis by the Municipality. Each is provided with an office and secretarial support at the cost of Council.

The Mayor makes use of a Council owned vehicle for official duties.

The Mayor and Deputy Mayor each have four full-time bodyguards and the Speaker has two full-time bodyguards at the cost of Council.

The Mayor and the Speaker are also provided with static security at their residence at the cost of Council.

19. Depreciation and amortization		
Property, plant and equipment	12 330 963	9 877 649
Investment property	87 482	86 454
Intangible assets	241 399	263 960
	12 659 844	**10 228 064**
20. Finance costs		
Finance leases	-	7 519
	-	**7 519**
21. Interest Paid		
Interest paid	314 448	58 052
	314 448	**58 052**

Figures in Rand	2016	2015

22. General expenditure

Advertising	239 164	276 830
Annual report	99 500	99 500
Asset Management	-	167 767
Auditors remuneration	1 959 126	1 925 811
Bank charges	64 643	54 988
Cleaning	321 202	297 112
Community development and training	1 813 427	240 210
Community projects	1 358 052	1 771 307
Conferences and seminars	101 472	403 112
Consulting and professional fees	785 032	1 749 135
Disaster funds	1 710 940	3 864 585
Electricity	409 599	773 449
Entertainment	357 718	550 293
Extended works programme - Department of works	1 220 173	1 896 192
Financial assistance	197 680	128 297
Financial management grant expenditure	1 707 994	1 774 722
Fire arms and ammunition	-	34 452
Free basic electricity	3 998 754	3 636 573
Heritage programme	177 690	261 836
HIV/AIDS awareness	177 450	485 406
Indigent Implementation		49 875
Insurance	279 035	293 549
Integrated development plan	-	383 585
IT expenses	308 478	491 505
Kwanaloga games	1 084 939	520 829
LED implementation	2 590 144	1 340 877
Library	911 580	1 036 729
Legal fees	1 532 676	331 188
Loose tools	149 709	147 436
Mayoral flagship projects	2 594 508	1 483 590
MIG PMU expenditure	-	219 028
Handover Projects	55 858	-
Motor vehicles expenses	2 141 559	1 311 327
Municipal systems improvement grant expenditure	886 765	696 979
Operating leases	775 157	112 039
Operational grant expenditure	7 334 662	2 710 197
Pauper burials	168 243	184 900
Placement fees	-	84 208
Postage and courier	1 649	9 771
Printing and stationery	659 421	890 301
Promotion	912 772	199 800
Protective clothing	184 580	302 429
Public participation	3 167 530	1 982 561
SALGA and other affiliation fees	1 152 092	566 786
School support	168 507	466 084
Security	5 801 812	3 304 933
Sports and recreation	200 000	315 778
Study grant	329 825	98 841
SCOA Expenditure	540 439	-
Service Point Clerks	1 564 201	
Recruitment of Staff	38 250	-
Team building	157 355	52 367
Telephone and fax	2016192,24	1026025,18
Tourism development	200100	147799,36
Training	48545,58	266185,41
Travel costs	2388997,62	2367938,376
Valuation roll	182938,2	101527,5
Youth and gender development	292500	385938
	57 520 636	**44 274 481**

Figures in Rand	2016	2015

23. Auditor's remuneration

External audit fees	1 482 504	727 090
Internal audit fees	346 933	980 540
Audit committee fees	129 689	218 181
	1 959 126	**1 925 811**

24. Cash generated from operations

Surplus for the year	11 655 746	314 598
Adjustments for:		
Depreciation and amortization	12 659 844	7 717 189
Gain on disposal of assets	-	
Impairment loss	-	
Increase in current provision	-	146 697
Increase in non-current provision	-	164 478
Contribution to Bad debt provision	1 796 626	282 244
Donations - in - kind	-	(2 370 845)
	26 112 217	6 254 361
Changes in working capital:		
(Increase)/Decrease in other receivables	8 990 791	(545 171)
(Increase)/Decrease in consumer debtors	(7 408 684)	(3 953 989)
Increase/(Decrease) in payables from non-exchange tra	(30 312)	3 173 914
Increase in VAT	(2 957 550)	(1 179 554)
Increase/(Decrease) in unspent grants		(4 854 883)
Increase in payables from exchange transactions	(10 472 226)	2 355 082
	14 234 236	**1 249 761**

25. Commitments

25.1 Authorised capital expenditure

Already contracted for but not provided for		
- Property, plant and equipment	3 623 883	**23 709 000**
Not yet contracted for and authorised by accounting officer		
- Property, plant and equipment	**-**	**16 547 215**

The Imbabazane and uMshezi Municipalities will merged as at 9 August 2016, therefore no furture commitments will be incurred for Imbabazane Municipality.

Housing projects	**Value of project**
Ngonyameni - Lingela Projects	77 390 760
Shayamoya - Makhayo Construction & Supplies	77 805 705
Mhlungwini - Tauries Garden 500 CC	90 237 726
Mnyangweni - Setheo Engineering	58 825 000
	304 259 191

The housing projects are implemented by the Department of Human Settlements, the municipality acts as an agent on behalf of the Department. The total value of housing projects is details above.

25.2 Contracted Services

Internal Audit service	346 933	980 540
Security services	5 801 812	3 304 933
Valuation services	182 938	101 528
	6 331 683	**4 387 001**

Nature and term of the Contracts

Internal Audit Service - Contract commenced as from 1 July 2012 until 31 August 2016
- Supplimenting the internal audit department

Security Service - Contract commenced as from 21 May 2013 for a three (3) year period
- Security at strategic Municipal buildings

Valuation Service - Contract commenced as from 1 December 2012 until 31 July 2017
- Preparartion of the valuation roll in therms of the MPRA

Figures in Rand	2016	2015

26. Contingencies

The following contingencies were identified during the reporting period

Pension fund contributions

The Municipality has been in negotiations with South African Local Government Bargaining Council (SALGBC) regarding the salary and wages collective agreement reached in 2012. Clause 9.3 of this agreement deals with the pension fund contributions as from 01 July 2012. The Unions interpretation of the abovementioned clause claim, is that all employees who received employer contribution of less than 18% prior to 1 July 2012 must received employer contribution of less than 18% as from 1 July 2012. A total of 68.65% of employees in the province are to be affected by this proposal. As a result of this proposal, the Municipality is potentially liable to make retrospective contributions to the employees pension funds to the value of R830 029.96.

Pending legal case against the Former Municipal Manager

The Municipal Manager and were suspended due to unauthorised expenditure relating to salaries. Legal proceedings have been instituted, a labour dispute case is currently pending.

High Court Action - Natal Joint Municipal Pension Fund (Superannuation and Retirement)

The Municipality is a defendant in a summons brought against various municipalities in respect of pensionable emoluments that are for Section 57 employees, whereby an adjusted contribution is payable as determine by the Actuary in terms of Regulation 18 of the Fund. As a result of this adjustment the municipality is potentially liable for adjusted contribution to the value of R 141 359.64.

Pending legal case Nonjiko Security vesus the Municipality

Nonjiko Security Services is claiming an amount of R 865,918,84 for balance of contract. This amount is also subjected to interest at a rate of 15,5 percent per annum. The case is currently pending

27. Fruitless and wasteful expenditure

Opening Balance	58 052	
Penalties - Natal Joint Pension Fund	924	-
Accommodation Protea Hotel	19 610	-
Accommodation Southern Sun	2 434	-
Penalties - EMP201	301 436	43 862
Interest paid	12 089	14 190
	394 544	**58 052**

The total fruitless and wasteful expenditure was reported to MANCO and EXCO for noting. A report will be table to council and national treasury for approval.

Penalties - Natal Joint Pension Fund

Penalties was levied by Pension fund for the late payment of contributions. The penalties are irrecoverable. Processes have been improved to esnure that such penatlies are not incurred in future

Accommodation Expenditure

The Municipality incurred fruitless and wasteful expenditure for accommodation relating to the Mayor and Director Community Services, due to non-attendance. A report was taken to the Finance Portfolio on the 30 June 2016 for noting and recommendation of action by EXCO.

Penalties EMP201

Penalties were levied by SARS due to the late submission of EMP201 returns. The reason for the late submission was due to the issues encountered by the Municipality with the SARS e-filing website.

Figures in Rand	2016	2015

The penalties incurred are irrecoverable. Processes have been improved to ensure that such penalties are not incurred in future.

Interest paid

Fruitless and wasteful expenditure was incurred in the form of interest paid, due to invoices for Telkom and Eskom not being settled in 30 days as required. Efforts have been made to contact the service providers in respect of late of invoices for payment, however due to the nature of the service provided, full payment had to be made.

28. Irregular Expenditure

Opening Balance	-	-
Nokthelma Catering & Busi	2 170	
The Natal Witness	15 553	
Buthelezi Mtshali Mzulwini Attorneys	64 464	
TL Mtshali Engineers	5 649 169	
Siyaya Construction CC	783 907	
Lionel's Auto Electrical	2 409	
Incredible Connection	14 210	
Sizikhulele Trading and Projects (Pty)	198 590	
Umhambawathi trading	199 150	
Lukhwishi Trading Enterprise	199 020	
Blessing Khathide Trading	199 000	
Nqobza Trading	198 950	
Nyamazane Consulting	196 500	
Okwanagumbi Trading	196 300	
Solwadzi Trading	195 200	
Pricewaterhouse Coopers	395 504	
Jimkhwa Security Services	5 161 564	
PSMT Consulting Engineers	8 552 307	
BTMN Consulting Engineers (Pty) Ltd	5 048 486	
Mills Fitchet (Natal) PTY LTD	209 669	
	27 482 121	**-**

29. Unauthorised Expenditure

Opening Balance	-	-
Budget overspending - Personnel	486 165	-
Budget overspending - Depreciation	2 252 209	-
Budget overspending - Debt impairment	493 626	-
Budget overspending - Contracted Services	1 866 968	-
Budget overspending - General Expenses & Consultants F	8 213 542	-
Salaries Payments to Employees	141 714	-
	13 454 224	**-**

The unauthorised budget expenditure was due to the municipality not submitting the special adjustments budget to Council for ratification.

The unauthorised expenditure relates to Employee salaries that former Municipal Manager implemented. Currently there is a legal case pending against the Former Muncipal Manager refer to Note 26 for details

Figures in Rand	2016	2015

30. Supply chain management deviations
Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer which was considered and subsequently approved From a total expenditure of R 119 435 517, deviations to the value of R 2 194 762. 62 was approved. This equates to approximately 2% of expenditure.

Supply Chain Management Deviations	2 194 763	3 663 020
Total Supply Chain Management Deviations	**2 194 763**	**3 663 020**

31. Additional disclosure in terms of the Municipal Finance Management Act

PAYE and UIF

Current year deductions and council portion	6 682 148	6 218 921
Amount paid - current year	(6 682 148)	(6 218 921)
	-	-

Pension and Medical Aid Deductions

Current year deductions and council portion	2 734 157	3 858 962
Amount paid - current year	(2 734 157)	(3 858 962)
	-	-

Skills Development Levy (SDL)

Current year deductions and council portion	374 398	326 127
Amount paid - current year	(374 398)	(326 127)
	-	-

Figures in Rand	2016	2015

32. Risk Management

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no dependent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilization of credit receivables and the cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk:

Cash and cash equivalents	9 329 788	22 704 007
Financial assets - Investments	-	-
Consumer debtors	21 013 544	13 604 860
	30 343 332	**36 308 867**

Liquidity risk

The municipality's risks to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into amounts due within 12 months after year end:

Payables from exchange transactions	5 763 751	17 759 855
Finance lease obligation	-	-
	5 763 751	**17 759 855**

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At period ended 30 June 2016, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

2015	**Effect on surplus for the year**	
Financial assets - Investments	1% increase	2% (decrease)
Cash and cash equivalents	227 030	(454 060)
Consumer debtors	136 049	(272 097)
	363 079	**(726 157)**

2016		
Financial assets - Investments	1% increase	2% (decrease)
Cash and cash equivalents	93 288	(186 576)
Consumer debtors	210 135	(420 271)
	303 423	**(606 847)**

Figures in Rand	2016	2015

33. Correction of prior period error

The comparatives of 2014/2015 have been restated in respect of the following errors:

33.1 Accumulated Surplus

Balance previously reported		146 890 250
Accruals already paid in 2014/2015		380 050
VAT not allocated 2014/2015		335 300
Stale EFTs written back		513 997
Reversal of payable due to prescription		1 140 749
Depreciation not raised on Retentions Capitalised 2014/2015		(1 847)
VAT incorrectly claimed		(37 068)
Balance restated 30 June 2015		**149 221 431**

33.2 Payables from exchange transactions

Balance previously reported		17 759 855
Raising of Retentions 2014/2015		332 221
Reversal of payable due to prescription		(1 140 749)
Accruals already paid in 2014/2015		(380 050)
VAT not allocated 2014/2015		(335 300)
Balance restated 30 June 2015		**16 235 977**

33.3 VAT Receivable

Balance previously reported		2 437 982
VAT incorrectly claimed		(37 068)
Balance restated 30 June 2015		**2 400 915**

33.4 Property Plant & Equipment

Balance previously reported		153 141 374
Capitalisation of Retentions 2014/2015		332 221
Balance restated 30 June 2015		**153 473 595**

33.5 Accumulated Depreciation PPE

Balance previously reported		40 147 908
Depreciation not raised on Retentions Capitalised 2014/2015		1 847
Balance restated 30 June 2015		**40 149 755**

33.6 Cash and cash equivalents

Balance previously reported		22 704 007
Stale EFTs written back		513 997
Balance restated 30 June 2015		**23 218 004**

Figures in Rand	2016	2015

34. Reasons for varience in excess of 10% identified in the Statement of Comparison of Budget and Actual Amounts

34.1 The varience is due to an increase relating to the capitalisation of completed projects from Work in progress to PPE.

34.2 The varience is due to correct calculation for Debt Impairement.

34.3 The varience is due to an increase relating to the derecognition of the Mayor's vehicle which was written-off by the Insurance company

34.4 The varience is due to an increase special projects undertaken by the Municipality.

Refer to the Statement of Comparison of Budget and Actual Amounts for details

35. Going Concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The going concern principle is the assumption that an entity will remain in operation for the foreseeable future. The Imbabazane and uMtshezi Municipalities will be merged as at 9 August 2016, and form the newly amalgamated Municipality. Therefore Imbabazane Municipality will cease to be a going concern as at the 9 August 2016.